

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 FEAE-00 AGR-10 INT-05 L-03 H-02 ERDA-07

DODE-00 PA-02 PRS-01 ACDA-10 EURE-00 /133 W

----- 037121

O P 161330Z JUL 76

FM AMCONSUL WINNIPEG

TO AMEMBASSY OTTAWA IMMEDIATE

INFO SECSTATE WASHDC PRIORITY 1642

AMCONSUL TORONTO

UNCLAS SECTION 1 OF 2 WINNIPEG 0247

E.O. 11652: N/A

TAGS: EINV, ETRD, EMIN, CA, US

REF: A - STATE 168157 B - OTTAWA 2869

SUBJECT: POTASH -- AMBASSADOR S MEETING WITH SASKATCHEWAN PREMIER
AND OFFICIALS RESPONSIBLE FOR POTASH

1. SUMMARY: AMBASSADOR S VISIT WAS AUSPICIOUS (AT LEAST FOR
SASKATCHEWAN) RE-OPENING RELATIONS WITH THIS RESOURCE-
LADEN PROVINCE. POTASH ISSUE WAS FRANKLY AND THOROUGHLY HASHED
ABOUT, WHICH CLARIFIED HOW ACQUISITION OF EFFECTIVE CONTROL OF
POTASH PRODUCTION IS BEING IMPLEMENTED IN SASKATCHEWAN.
THE IMPRESSION WAS THAT EXPROPRIATION WOULD BE ONLY AS A LAST
RECOURSE. FROM THE MEETING AROSE A NEW EXPRESSION OF INTEREST ON
THE PART OF THE GOS TO PROVIDE SPECIFIC ASSURANCES OF SUPPLY. A
HATTER WHICH WILL NEED FURTHER STUDY WITHIN THE USG, THE PROVINCIAL
GOVERNMENT AND THE GOC. THE ATMOSPHERICS WERE GOOD, AND THERE ARE
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OPPORTUNITIES FOR FURTHER PROMISING DISCUSSIONS TO BRING THIS ISSUE,

TO WHICH THE GOS IS IRREVOCABLY COMMITTED, INTO TOLERABLE PROSPECTIVE
ON THE INTERNATIONAL ECONOMIC SCENE

2. AMBASSADOR MET WITH SASKATCHEWAN PREMIER ALAN BLAKENEY FOR MORE
THAN AN HOUR JULY 13 IN WHAT WAS BILLED AS A COURTESY CALL, BUT
WHICH LED INTO BI-LATERAL RELATIONS, POTASH, POPLAR RIVER (REF B)

AND OTHER MATTERS. PREMIER S VIEWS ON POTASH BEING REPORTED SEPTEL.

3. FOLLOWING A CORDIAL LUNCHEON HOSTED BY PREMIER AND ATTENDED BY
60 OF THE PROVINCE S VIP S, IN A WORKING SESSION WITH
SASKATCHEWAN POTASH OPERATIVES (SEE LIST BELOW) THE AMBASSADOR
DREW ON EXTREMELY HELPFUL TALKING POINTS FROM VINE (REF A). RECORD
WHICH FOLLOWS IS KEYED TO REFTEL.

4. ATTITUDE OF US BUSINESSMEN TOWARD INVESTMENT IN CANADA:

-- AMBASSADOR REPEATEDLY EXPRESSED USG CONCERN ABOUT IMPLICATION
OF SASK ACTION IN THE POTASH INDUSTRY AND NOTED THAT THIS CYCLE
CAN BE DUPLICATED BY OTHER PRROVINCES. SHE OPINED THAT THERE WOULD
BE STRONG ECONOMIC INCENTIVE FOR OTHER PROVINCES TO FORM CROWN
IORPORATIONS WITH THEIR OBVIOUS TAX ADVANTAGES.

-- SASK OFFICIALS EMPHASIZED THAT WITHIN THEIR PROVINCE THE ACTION
TAKEN TOWARD THE POTASH INDUSTRY WAS UNIQUE REPEAT UNIQUE.
IN THEIR JUDGMENT, AND THIS IS OBVIOUSLY DEBATABLE, THE INDUSTRY
HAS A LONG RECORD OF NON COOPERATION AND POSSIBLE DEFIANCE OF
PROVINCIAL LAW WHICH LEFT GOS NO CHOICE BUT TO ACT NOW. FURTHER,
SASKATCHEWAN S EXPERIENCE WITH OTHER RESOURCE INDUSTRIES
(PETROLEUM, URANIUM, AND PAPER PULP) HAD BEEN MUCH MORE SATISFACTORY
WHICH PUT THESE INDUSTRIES ON FIRMER GROUND IN THE PROVINCE. AS TO
WHETHER OTHER PROVINCES MIGHT FOLLOW THIS PRECEDENT, SASK REPS COULD
NOT SAY, BUT BELIEVED THAT CANADIAN FEDERAL GOVERNMENT WOULD TAKE A
DIM VIEW OF A MASSIVE MOVEMENT TO CROWN CORPORATIONS WITH A
CONCOMITANT REDUCTION OF FEDERAL TAX REVENUE. BUT FOR SASKATCHEWAN,
THEY MADE IT CLEAR THAT FOREIGN INVESTMENT IS NOT ONLY WELCOME BUT
ABSOLUTELY ESSENTIAL FOR PROVINCIAL DEVELOPMENT.

5. ACCESS TO US CAPITAL MARKET:

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-- AMBASSADOR NOTED ANOMALY WHEREBY US CAPITAL MIGHT BE SOUGHT TO
ASSIST SASKATCHEWAN IN ITS GOAL TO ACQUIRE EFFECTIVE CONTROL
OF THE PROVINCE S POTASH INDUSTRY. WHILE THIS CAUSED INTUITIVE
PHILOSOPHICAL PAIN TO US BUSINESS, NOTHING HAS BEEN DONE TO
INHIBIT ACCESS TO THIS CAPITAL, AND THE MARKET REMAINS OPEN.
NONETHELESS, THE CAPITAL MARKET APPEARS LESS AND LESS INTERESTED IN
EXPORTING CAPITAL BECAUSE OF THE ATTRACTIVE POSSIBILITIES AT HOME.

-- WHILE SASK OFFICIALS DID NOT RESPOND IN DETAIL TO THIS, THEY DID NOTE THAT VERY LARGE AMOUNTS OF CAPITAL WOULD BE REQUIRED IF ACQUISITION WERE TO CONTINUE BEYOND POSSIBLY THREE COMPANIES (DUVAL, ALWINSAL, AND SYLVITE). FURTHER THE OPENING AND DEVELOPMENT OF OTHER NEW MINES WHICH WOULD SATISFY THE MAGICAL EQUATION OF EFFECTIVE CONTROL WOULD REQUIRE HUNDREDS OF MILLIONS OF DOLLARS -- FAR TOO LARGE A BIT FOR SASKATCHEWAN TO CHEW.

6. SASKATCHEWAN S POWER TO MANIPULATE POTASH SUPPLIES AND PRICES:

-- AMBASSADOR OBSERVED THAT WITH EFFECTIVE CONTROL SASK WILL HAVE CERTAIN ECONOMIC RENT WITH A MARGIN TO MANIPULATE SUPPLY AND PRICES WHICH CAN HAVE A TREMENDOUS IMPACT ON US FARMERS.

-- SASK OFFICIALS ARGUED THAT THE MARGIN THEY HAVE IS REALLY MUCH LESS THAN WE PERCEIVE IT TO BE AND, GIVEN THE ENORMOUS RESERVES WHICH THEY HAVE, AND THE PROXIMITY OF THE US FARM MARKET, THEY WOULD BE FOOLHARDY TO ABUSE THIS SHORT TERM ADVANTAGE.

7. ASSURANCE OF SUPPLY AND ALTERNATE SOURCES:

-- AMBASSADOR WELCOMED PREMIER BLAKENEY S STATEMENT ON THIS SUBJECT BUT UNTIL NEW DEPOSITS ARE FOUND, IT IS ONLY NATURAL THAT WE WOULD BE EXPLORING OTHER SOURCES OF SUPPLY. NOTING THAT HE DID NOT INTEND TO BE ONIMUS OR PORTENTOUS, IT WOULD NOT ESCAPE POTASH BUYERS THAT THERE ARE EMPTY US SHIPS COMING BACK FROM THE SOVIET UNION.

-- SASK REPS SAID THAT IF PREMIER S PUBLIC ASSURANCES HAD NOT YET BEEN SUFFICIENTLY CONVINCING, THEN WHAT FORM SHOULD SUCH ASSURANCES TAKE? WHILE ON UNCERTAIN GROUND, THE GOS WOULD BE PREPARED, IN PRINCIPLE, TO DO SOMETHING MORE IN THIS DIRECTION. WHETHER THIS COULD BE DONE BETWEEN PROVINCE AND THE COMPANIES, OR BETWEEN OTTAWA AND WASHINGTON, THEY DID NOT KNOW. BUT, THEY GAVE THE STRONG IMPRESSION THAT SOME FURTHER ASSURANCES WOULD BE POSSIBLE AND INDEED UNCLASSIFIED

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DESIRABLE.

-- NOTE NO. 1: ALTHOUGH THE USG HAS NOT THOUGHT VERY FAR DOWN THIS LINE, THE AMBASSADOR SAID PERHAPS WE SHOULD CONSIDER SOMETHING LIKE THIS BEFORE THE NEXT MEETING ON THE SUBJECT (POSSIBLY IN OCTOBER). PRESUME THE AMBASSADOR WILL ADDRESS THE DEPARTMENT FURTHER ON THIS MATTER.

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8. EXPROPRIATION AND COMPENSATION:

-- AMBASSADOR RE-STATED USG POSITION ON EXPROPRIATION WHICH WE OBVIOUSLY DO NOT ENCOURAGE. HE ALSO REITERATED OUR VIEWS ON PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION. HE NOTED THE EXTREME EXAMPLE OF A US ALUMINUM COMPANY IN GUYANA WHICH, WHEN EXPROPRIATED AND COMPENSATED, FOUND THAT IT HAD A NEGATIVE NET WORTH BECAUSE OF A RESERVE TAX.

-- SASK OFFICIALS SAID THAT ENABLING LEGISLATION DEFINES TERMS OF EXPROPRIATION AND COMPENSATION, BUT THEY LEFT IMPRESSION THAT THEIR HOPE IS THAT THIS WILL NOT NEED TO BE USED, AND FOCUSED MORE ON THE PROCEDURE OF ACQUISITION WHICH IS DISCUSSED BELOW. THEY ARGUED THAT THE SASK APPROACH WOULD BE FAIR AND INDEED PROVIDES FOR ARBITRATION AT WHICH ANY COMPANIES INTERESTS SHOULD BE AS FAIRLY REPRESENTED AS ANY ARBITRATION PROCEDURE IN THE WORLD.

9. STATE OF PLAY IN ACQUISITION OF DUVAL:

-- AMBASSADOR ASKED WHERE MATTERS STOOD WITH REGARD TO DUVAL.

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-- WHILE OBVIOUSLY CONSTRAINED BY THE SENSITIVITY OF SUCH MATTERS

SASK OFFICIALS CONVEYED IMPRESSION THAT NEGOTIATIONS WITH DUVAL WERE PROCEEDING AMICABLY WITH OBVIOUS CONCERN ON SASKATCHEWAN S PART THAT THE OUTCOME WILL BE A PRECEDENT FOR THE ACQUISITION OF OTHER COMPANIES.

10. FURTHER ACQUISITIONS:

-- GOS OFFICIALS VOLUNTARILY CONFIRMED THAT THEY ARE NOW EVALUATING THE ASSETS OF TWO OTHER COMPANIES. IT WOULD BE UP TO THESE COMPANIES TO MAKE PUBLIC SUCH PROCEEDINGS. THE STATE OF PLAY OF THESE NEGOTIATIONS LEAVE SASKATCHEWAN OFFICIALS STILL HOPEFUL OF MEETING A TIME FRAME OF 6 - 18 MONTHS TO OBTAIN EFFECTIVE CONTROL OF POTASH. NO OTHER ACTIONS BEYOND THESE THREE SETS OF NEGOTIATIONS ARE CONTEMPLATED BY SASKATCHEWAN IN THE IMMEDIATE FUTURE.

-- WE INQUIRED WHETHER SUCCESSFUL ACQUISITION (OR EXPROPRIATION) OF THESE THREE COMPANIES WOULD CONSTITUTE EFFECTIVE CONTROL . THEIR REPLY WAS COMFORTINGLY IMPRECISE SINCE, TO EVERYONES RELIEF EFFECTIVE CONTROL HAS NOT YET BEEN PRECISELY DEFINED. BASED ON SASKATCHEWAN S ESTIMATE THAT THESE THREE COMPANIES WOULD PROVIDE ROUGHLY 30 - 40 PERCENT OF POTASH PRODUCTION. THE AMBASSADOR ASKED WHETHER THEY WOULD NOT NEED TO TAKE ONE MORE. THEY REPLIED THAT ANY FURTHER ACQUISITIONS WOULD BE A MAJOR UNDERTAKING FINANCIALLY, AND LEFT THE IMPRESSION THAT A JOINT VENTURE ARRANGEMENT WITH ONE OR SEVERAL OF THE REMAINING COMPANIES MIGHT WELL BE THE ANSWER. TO THE AMBASSADOR S OBSERVATION THAT MANY PEOPLE TEND NOT TO CONSIDER DUVAL A TEST CASE SINCE IT APPEARED TO BE A WILLING SELLER, SASKATCHEWAN OFFICIALS MAINTAINED THAT THIS WAS NOT THEIR VIEW. AT THE TIME WHEN NEGOTIATIONS WERE BEGUN THEY CLAIM TO HAVE HAD NO INTELLIGENCE THAT DUVAL WOULD BE A WILLING SELLER. THEY ARE HOPEFUL THAT IT WILL FIND THE ACQUISITION EQUITABLE BUT THE GOS CLAIMS IT HAS NO IDEA HOW OTHER COMPANIES WILL REACT AFTER THE SALE.

11A. AT THE END: IN CONCLUSION THE AMBASSADOR REITERATED HIS ASSURANCE GIVEN EARLIER TO THE PREMIER THAT THE USG WANTS TO COOPERATE THROUGHOUT THIS TRANSITION . OUR OBJECTIVE IS TO PROTECT OUR GOOD RELATIONS AND WE ARE PREPARED TO BE COOPERATIVE AND SUPPORTIVE IN A POSITIVE WAY. THE USG, BECAUSE OF ITS OBVIOUS INTERNATIONAL ECONOMIC ROLE, SEES THIS ACTION AS PART OF UNCLASSIFIED

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A DIFFERENT OPTIC THAN PERHAPS IT IS SEEN BY THE GOS. WE MUST WORRY ABOUT THE FUTURE AND WHAT THIS ACTION MEANS. WE ARE ANXIOUS ABOUT THE PRECEDENTAL IMPACT THIS MAY HAVE ELSEWHERE IN CANADA AND THE WORLD. THEREFORE, THE AMBASSADOR SAID WE WOULD REFLECT ON THE SASKATCHEWAN GOVERNMENT S SUGGESTION OF POSSIBLE SUPPLY ASSURANCES, AND WOULD APPRECIATE THE GOS DOING THE SAME. WE ARE PREPARED TO EXCHANGE INFORMATION, AND WHILE WE MUST KEEP OTTAWA ABREAST OF DEVELOPMENTS THE EMBASSY , FROM TIME TO TIME, MIGHT CALL THE SASKATCHEWAN OFFICIALS DIRECTLY. TO THIS

SUGGESTION GOS OFFICIALS READILY AGREED.

11B. IN DEPARTING THE AMBASSADOR INDICATED TO THE DEPUTY PREMIER THAT HE MIGHT BE RETURNING IN OCTOBER AT WHICH TIME FURTHER DISCUSSIONS COULD BE UNDERTAKEN.

12. ATMOSPHERICS: FOR THIS MEETINGG THE GOS RAN OUT A TEAM OF YOUNG, EXTREMELY CAPABLE, EXPERTS WHO SEEM TO UNDERSTAND THE MAGNITUDE OF THE ACTION WHICH THEY ARE COMMITTED TO CARRY OUT. INDEED, ONE HAS THE IMPRESSION OF CAUTION, RESERVE, AND A BUSINESS-LIKE APPROACH WHICH WILL NOT SCREW UP EVERYTHING ELSE WHICH

THIS RESOURCE-LADEN PROVINCE HAS. IN SPITE OF THE VERY CORDIAL AND WARM AMBIENCE WHICH SURROUNDED THE AMBASSADOR S ENTIRE STAY Y

IN REGINA, HIS PRESENCE, EXPERT KNOWLEDGE, AND FRANKNESS LENT A CERTAIN AIR OF INVISIBLE TENSION TO THE WHOLE PROCEEDINGS. ALTHOUGH THERE HAVE BEEN MANY DISCUSSIONS BEFORE, IT WAS AS IF THE ICE HAD BEEN BROKEN ANEW. Y OFFICIALS SEEMED EAGER FOR ANOTHER VISIT BY THE AMBASSADOR IN OCTOBER BUT THERS MAY BE SOME UTILITY FOR A USG TEAM OF EXPERTS AT THE WORKING LEVEL TO ENGAGE THE SASKATCHEWANEES AGAIN IN REGINA ON SUCH QUESTIONS AS SUPPLY ASSURANCES BEFORE THEN. IN SHORT, IT WAS AN AUSPICIOUS RE-OPENING OF OUR RELATIONS WITH SASKATCHEWAN.

13. LIST OF PARTICIPANTS (WITH COMMENTS):

QROY ROMANOW, ATTORNEY GENERAL (AND DEPUTY PREMIER) -- WILY, INCISIVE, PROVINCIALLY POWERFUL, ROMANOW CHAIRED THIS SESSION AND COULD SPEAK WITH AUTHORITY ABOUT THE PROVINCES LEGAL POSITION. HE DOES, HOOWEVER, SEEM TO HAVE A VISCERAL HANG UP ABOUT THE COMPANIES CONDUCT WHICH HE CLAIMS HAS FORCED THIS ACTION.
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ELWOOD COWLEY, PROVINCIAL SECRETARY AND MINISTER IN CHARGE OF POTASH CORPORATION WAA ALTHOUGH YOUNG, AND SOMEWHAT PHYSICALLY CRIPPLED WITH BACK PROBLEMS, COWLEY IS A SHREWD EXPERT IN CHARGE OF POTASH.

QJOHN BURTON, DIRECTOR OF EXTERNAL RELATIONS, POTASH SECRETARIAT -- ALREADY FAMILIAR TO WASHINGTON BY VIRTUE OF HIS RECENT TRIP THERE, BURTON SEEMED TO BE IN A ROLE OF LESSER POWER VIS-A-VIS HIS YOUNGER SUPERIORS.

Q

JACK KINZEL, CHIEF OF STAFF OF POTASH SECRETARIAT -- ALTHOUGH OLDER THAN THE TOP TWO, KINZEL, NONETHELESS FREQUENTLY WEIGHED IN WITH USEFUL POINTS.

GARRY BEATTY, SECRETARY, POTASH COMMITTEE OF CABINET -- FOR
WHATEVER REASON BEATY PLAYED NO LARGE ROLE IN THIS DISCUSSION.

14. THIS BEING SUCH A DETAILED ACCOUNT AND LIMITED BY EXISTING
PERSONNE, I DO NOT PLAN TO SUBMIT ANY FULLER REPORT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DIPLOMATIC DISCUSSIONS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976WINNIP00247
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760274-1246
From: WINNIPEG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760748/aaaabpxa.tel
Line Count: 337
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 STATE 168157, 76 OTTAWA 2869
Review Action: RELEASED, APPROVED
Review Authority: vogelfj
Review Comment: n/a
Review Content Flags:
Review Date: 26 FEB 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 FEB 2004 by ThomasVJ>; APPROVED <31 JAN 2005 by vogelfj>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: EINV, ETRD, EMIN, CA, US, (BLAKENEY, ALAN)
To: OTTAWA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006